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SUBJECT: AZERBAIJAN ENERGY UPDATE, MARCH 2008

11. SUMMARY: This is the first in a series of regular energy updates, highlighting developments outside of the major off-shore oil and gas production and transport projects. The information contained in these reports is drawn primarily from the Azerbaijani local press, and has not been checked for accuracy. The opinions and policies expressed in this report are those of the authors, not the U.S. Government. END SUMMARY.

12. SOCAR HEAD TAKES SECOND JOB

On March 17, the Azerbaijani Football Federation's Association (AFFA) elected SOCAR President Rovnag Abdullayev as its new President. Abdullayev said he would actively contribute to the development of Azerbaijan's football, seek tax exemption for football sponsors, and that SOCAR would help all the football clubs of Azerbaijan,

13. AZERBAIJAN AND GREECE SIGN GAS MOU

On March 17, GOAJ Energy Minister Natig Aliyev and visiting Greek Development Minister Christos Philias signed an MOU on energy cooperation, including the supply of Azerbaijani gas to Greece. Greece wants to import 1 billion cubic meters annually of Azerbaijan's gas from Shah Deniz Phase Two (further details septel).

14. DIESEL FUEL TO BE SHIPPED FROM KULEVI

According to SOCAR, its Kulevi Black Sea Oil Terminal in Georgia has been fully repaired and SOCAR will start operations there in late March or early April, when it plans to ship its first tanker with Azerbaijan's diesel fuel. SOCAR bought the terminal from the well-known Georgian businessmen, Badri Patarkatsishvili in 2006. It is repairing the terminal with a syndicated loan of \$305 million from 15 European banks over five years. SOCAR also plans to transport oil from Kazakhstan via Kulevi.

15. SOCAR TO INVEST \$100 MILLION IN GEORGIAN PROJECTS

SOCAR intends to invest \$100 million in projects in Georgia in 2008. This will be done via SOCAR Georgia (the local subsidiary). SOCAR investment in Georgia was \$380 million in 2007. The index will decrease because the repair of the oil terminal in Kulevi has been completed. SOCAR will build new oil reservoirs totaling \$15 million in Georgia in 2008. An office will be also built for SOCAR Georgia

for \$10 million.

¶6. SOCAR TO START DRILLING FIRST WELL ON UMID FIELD

SOCAR President Rovnag Abdullayev said SOCAR would start exploratory drilling on the offshore Umid gas field soon. The first production well will be launched in 2009. The gas field reportedly includes 200 billion or 300 billion cubic meters.

¶7. SOCAR'S PRESIDENT TO VISIT GEORGIA

SOCAR President Rovnag Abdullayev will visit Georgia next week to continue talks over Azerbaijani gas exports and to discuss several other Georgian projects. Talks are expected to focus on the price, amount and schedule of the supply of Azerbaijani gas. Abdullayev said Azerbaijan would be able to provide Georgia with the required amounts completely after its own gas extraction increased to 8 billion cubic meters. In 2008, Azerbaijan is ready to supply up to 500 million cubic meters at \$180-200 per 1,000 cubic meters. Georgian Energy Minister Khetagouri said Azerbaijan and Georgia would finalize their talks over gas trade soon. He said the sides were discussing technical details and not the price of the gas.

¶8. SOCAR GEORGIA - BIGGEST TAXPAYER OF GEORGIA

SOCAR Georgia has been recognized Georgia's largest taxpayer in ¶2007. This subsidiary of SOCAR was created in December, 2006. SOCAR invested \$380 million in Georgia's economy in 2007.

¶9. KAZMUNAYGAZ BUYS NAFTRANS LTD ASSETS

Kazakhstan's state-run oil and gas company Kazmunaygaz has bought the entire assets of Naftrans Ltd that manages Georgia's Batumi Oil Terminal. The deal totaled \$220 million. The Naftrans assets total \$335 million now. Naftrans also transports oil and oil derivatives from the Azerbaijan-Georgian border to the Batumi Terminal.

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